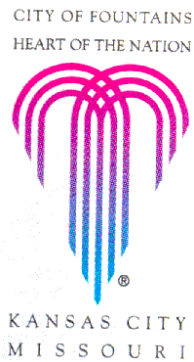


**Follow-up Audit  
Golf Course  
Retail Inventory Controls**

October 2000

**City Auditor's Office**

**City of Kansas City, Missouri**



October 31, 2000

Honorable Mayor, Members of the City Council, and Members of the Board of Parks and Recreation Commissioners:

This follow-up audit of the Parks and Recreation Department golf course retail inventory controls was initiated by the city auditor pursuant to Article II, Section 13 of the city charter. The follow-up report was initiated as part of the City Auditor's Office policy of determining department progress in improving program operations subsequent to issuance of our audit reports.

A new inventory system has been implemented, and responsibilities for ordering, receiving, and distributing merchandise are now shared among Parks and Recreation Department staff. Physical security at the pro shops has improved, and surprise inventory counts have been conducted. Written inventory procedures have been expanded to include instructions on merchandise pricing, trade-ins, merchandise returns, and retail and storeroom appearance standards.

Inventory turnover has also improved, approaching industry norms. The mix of merchandise sold in the pro shops has changed, with less emphasis on higher priced items. However, during the years since our 1996 report, revenues from merchandise sales have declined while revenues from concession and golf activities have increased.

Internal controls can be further strengthened. Concession items should be added to the inventory system. Written procedures should be developed for merchandise discounts, operating the inventory system, and monitoring pro shop performance. Golf management should use the increased information available from the inventory system to analyze pro shop performance. Surprise inventory counts should be conducted more frequently and should be documented. Incompatible duties should be segregated or monitored.

The draft follow-up report was sent to the director of Parks and Recreation on September 27, 2000. His written response is included as an appendix. We appreciate the courtesy and cooperation extended to us during this project by the staff in the Parks and Recreation Department. The audit team for this project was Robin K. Reed and Gary White.



Mark Funkhouser  
City Auditor

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# Follow-up Audit: Golf Course Retail Inventory Controls

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## Table of Contents

Introduction	1
Objectives	1
Scope and Methodology	1
Background	2
Consultant Study on Golf Operations	3
Summary of the 1996 Audit	3
Findings and Recommendations	5
Summary	5
Internal Controls Were Strengthened, But Further Efforts Are Needed	5
New Inventory System Strengthens Internal Controls	6
Some Incompatible Duties Are Segregated	6
Physical Security Has Improved	6
Surprise Inventory Counts Have Been Performed	6
Oversight Should Be Strengthened Further	7
Written Policies Have Improved, But Require Further Development	9
Some Written Procedures Were Developed; Most Are Followed	9
Additional Written Procedures Are Needed	9
Written Policies and Procedures Should Be Adequately Maintained	10
Inventory Turnover Has Improved But Merchandise Revenues Are Declining	10
Pro Shop Inventory Turnover Has Improved, But Remains Low	11
Merchandise Mix Has Improved	12
Golf Merchandise Revenues Are Declining	13
Management Analysis Could Help Improve Pro Shop Revenues	13
Recommendations	14
Appendices	16
Appendix A: Prior Audit Recommendations	16
Appendix B: Audit Report Tracking System (ARTS) Reports	19
Appendix C: Director of Parks and Recreation's Response	25

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## **Follow-up Audit: Golf Course Retail Inventory Controls**

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### **List of Exhibits**

Exhibit 1.	Golf Course Locations	2
Exhibit 2.	Inventory Turnover Ratios, FY 1999, with Industry Norms	11
Exhibit 3.	Golf Retail Merchandise by Category, 1996 and 2000	12
Exhibit 4.	Golf Revenues by Source, Fiscal Years 1997-2000	13

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## Introduction

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## Objectives

This follow-up audit of the Parks and Recreation Department's golf course retail inventory controls was conducted pursuant to Article II, Section 13 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the city auditor's primary duties.

A performance audit is an objective, systematic examination of evidence to independently assess the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making. A follow-up audit is an examination to determine whether timely and appropriate corrective actions have been taken by auditee officials.<sup>1</sup> This follow-up audit was designed to answer the following questions:

- Has the Parks and Recreation Department developed adequate written procedures for golf course retail inventory operations?
- Has golf course management taken steps to reduce opportunities for fraud, waste, and abuse in retail inventory operations?
- Has inventory turnover improved?

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## Scope and Methodology

This follow-up sought to determine what steps Parks and Recreation staff have taken to address the problems identified and the recommendations made in our December 1996 audit.<sup>2</sup> It is not intended to be another full-scale audit of the Parks and Recreation Department's golf course retail merchandise sales operation.

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<sup>1</sup> Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U. S. Government Printing Office, 1994), pp. 14 and 68.

<sup>2</sup> *Parks and Recreation Department Golf Course Retail Inventory Controls*, Office of the City Auditor, City of Kansas City, Missouri, December 1996.

This follow-up was conducted in accordance with generally accepted government auditing standards, with the exception of the completion of an external quality control review of the City Auditor's Office within the last three years.<sup>3</sup> Our follow-up audit methods included:

- Reviewing the prior audit and subsequent Audit Report Tracking System (ARTS) reports.
- Interviewing Parks and Recreation Department staff.
- Reviewing Parks and Recreation inventory records, operations summaries, revenue and expense reports, and written policies and procedures.
- Reviewing the March 2000 report, *The Comparison Review and Evaluation of Golf Course Operations at The Kansas City, Missouri Municipal Golf Courses*, prepared by Golf Industry Associates.
- Observing retail sales operations at the four golf courses.

No information was omitted from this report because it was deemed privileged or confidential.

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## Background

The Parks and Recreation Department operates four golf courses throughout the city. (See Exhibit 1.)

Exhibit 1. Golf Course Locations

Course Name	Location
Blue River	7501 Blue River Road
Hodge Park	7000 N.E. Barry Road
Minor Park	110 <sup>th</sup> & Holmes Road
Swope Memorial	6900 Swope Memorial Drive

Each course clubhouse includes a pro shop selling golf merchandise and a restaurant. Clubhouses are staffed by a general manager, an assistant manager, and several part-time employees. Gross revenues from the pro shop and concession operations have exceeded \$600,000 in each of the last four fiscal years.

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<sup>3</sup> The last review was in April 1995. An external review is scheduled for January 2001.

### **Consultant Study on Golf Operations**

In March 2000, Golf Industry Associates (GIA) presented the Board of Parks and Recreation Commissioners with a report on golf course operations. The report evaluates the four municipal golf courses and offers “solutions that insure the City’s golf courses remain competitive and attractive to an ever growing golf market.”<sup>4</sup>

### **Summary of the 1996 Audit**

Our December 1996 audit reviewed management controls over golf merchandise and operating efficiency of golf retail operations. We found limited written procedures, a general lack of management controls over inventory, lax security, poorly maintained sales floors and storerooms, and low inventory turnover.

We recommended expanding written policies and procedures, strengthening the inventory systems for both the pro shop and concession operations, strengthening internal controls over merchandise, performing surprise monthly physical inventory counts, and monitoring inventory turnover and merchandise mix. (See Appendix A for the recommendations from our 1996 audit.) Audit Report Tracking System (ARTS) reports submitted by management are included in Appendix B.

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<sup>4</sup> *The Comparison Review and Evaluation of Golf Course Operations at The Kansas City, Missouri Municipal Golf Courses*, Golf Industry Associates, March 2000, p. 2.





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## Findings and Recommendations

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### Summary

Golf Operations management has strengthened internal controls. A new inventory system has been developed and management staff now shares responsibilities for ordering, receiving, and distributing golf merchandise. Physical security at the pro shops has improved and surprise inventory counts have been conducted. Written policies exist on merchandise pricing, trade-ins, and merchandise returns while appearance standards have been developed for the retail floor and storeroom.

Internal controls can be further strengthened. Concession items should be added to the inventory system to increase accountability for these items. Surprise inventory counts should be conducted more frequently and should be documented. Responsibility for receiving merchandise and adding it to the inventory system should either be segregated or monitored. Additional written procedures should be developed for merchandise discounts, the calculation of inventory turnover, tracking the age of inventory and operating the inventory system. The procedures manual itself should be codified in a format that allows staff to quickly identify current policies and allows for easy incorporation of revised or new procedures.

Inventory turnover has improved, approaching industry norms. The mix of merchandise sold in the pro shops has changed, with less emphasis on higher priced items. However, during the years since our original report, revenues from merchandise sales have declined while revenues from concession and golf activities have increased. Golf management should take advantage of the increased information available from the inventory system to analyze pro shop performance and assist in determining reasons for the recent decline in pro shop revenues.

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### Internal Controls Were Strengthened, But Further Efforts Are Needed

Golf Operations' internal control structure has improved, however additional steps should be considered. A new computerized inventory

system provides increased information on items sold and those remaining in inventory. Some incompatible duties have been segregated, physical security over merchandise was increased, and surprise inventory counts have been conducted. Controls could be further improved by adding concession items to the inventory system; segregating other incompatible responsibilities or improving oversight for activities that cannot be segregated effectively; and performing surprise inventory counts with greater frequency.

### **New Inventory System Strengthens Internal Controls**

Golf Operations has acquired a point of sale (POS) inventory system that allows purchases and sales of merchandise to be recorded directly into the system as they occur. While our original audit found inaccurate information on inventory levels and inadequate information on merchandise sales, the new system allows management to know the quantity of any item in inventory at all times and can provide sales reports on a daily, weekly, or monthly basis. The system records the identity of any cashier entering a sale, while internal controls within the POS system do not allow cashiers to sell items below cost.

### **Some Incompatible Duties Are Segregated**

The director of golf is responsible for selecting golf merchandise, placing the order, and setting the selling price, using information on current inventory levels from the POS inventory system. The golf accountant receives the merchandise and adds it to the POS system while the concession manager delivers the merchandise to the four courses. During the original audit, the concession manager performed all these functions subjecting the city to risk of loss by allowing a single person to be in a position to both commit and conceal theft.

### **Physical Security Has Improved**

Physical security of the storerooms and clubhouses has improved. All clubhouses have security systems, and the number of exits accessible to patrons has been reduced. The original audit found golf merchandise storerooms poorly secured, clubhouses with multiple exits, and no control features.

### **Surprise Inventory Counts Have Been Performed**

Two documented surprise inventory counts and an unknown number of undocumented counts have been conducted since the last audit. Our

original report found significant variations between physical counts and inventory records, and we recommended conducting surprise counts. The Parks and Recreation Department's internal auditor conducted and documented a surprise inventory count in June 1998 that found no significant variances.

According to the director of golf, the previous golf accountant performed as many as three surprise counts in 1999, although no documentation of these counts or their results was found. In May 2000, the current golf accountant checked five randomly selected items at each of the four pro shops. Variances in all these counts were found to be within the acceptable range.

### **Oversight Should Be Strengthened Further**

While there are significant improvements in internal controls, some additional steps are necessary. These include adding the concession inventory to the POS system, segregating incompatible responsibilities or improving oversight for two activities of the golf accountant, and more frequent and documented surprise inventory counts.

**The concession inventory should be tracked by the POS system.** The POS system is currently only used to monitor the pro shop inventory, although the director of golf hopes to include the concession inventory in the future. Concession items are counted monthly, providing accurate information on inventory levels twelve times a year.

Our original audit noted that maintaining a running total of inventory on hand ensures that certain quantities of inventory are available when needed and prevents overstocking. A perpetual inventory system is useful for controlling and safeguarding inventory and preparing monthly and other interim statements. We recommended management establish a perpetual inventory system to better account for merchandise and concession sales and inventory. The director of Parks and Recreation should ensure that concession items are added to the point of sale inventory system to improve accountability for these items.

**Incompatible activities should be segregated or oversight increased.** While three employees now share responsibilities for ordering, receiving, pricing, and delivering golf merchandise, two critical components are still handled by one person. The golf accountant both receives the merchandise and adds it to the POS system.

Ideally, no single individual should be able to authorize a transaction, record the transaction in the books of account, and ensure custody of the asset resulting from the transaction.<sup>5</sup> While the accountant does not authorize the purchase of the golf merchandise, he has custody of the goods as they are received and records the goods in the inventory system. As such, the potential for irregularities to occur and go undetected still exists.

Controls are not in place to verify the accuracy of the information entered in the POS system because the golf accountant is solely responsible for receiving the merchandise and adding it to the inventory system. One way to address this concern would be to assign one of these functions to another person. If this is not practical, alternatives might be considered including mandatory vacation policies or periodic rotation of duties among golf operations staff.

Another means of increasing oversight would be to initiate a system of analytical review whereby the golf accountant continues performing both functions while his activities are monitored by someone who could compare POS entries to merchandise invoices to confirm all items purchased were accurately entered in the system.

The director of Parks and Recreation should ensure that the golf accountant's responsibilities for receiving and entering golf merchandise in the inventory system are either segregated or monitored by the director of golf.

**The frequency of surprise inventory counts should be increased and the results documented.** Parks and Recreation staff have conducted surprise counts of golf merchandise, but not as frequently as we recommended and occasionally without documenting the results. We originally recommended conducting monthly surprise counts of golf merchandise and concession items to ensure all items were properly counted and reported. While our current efforts have not focused on determining how frequently surprise counts should be performed, the number of counts conducted appears insufficient to adequately minimize or detect employee theft.

While the new inventory system improves internal controls, surprise counts could provide additional safeguards and positively affect employee behavior by increasing awareness of their accountability. The

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<sup>5</sup> Stephen J. Gauthier, *An Elected Official's Guide to Internal Controls and Fraud Prevention*, (Chicago, IL: Government Finance Officers Association, 1994), p. 20.

director of Parks and Recreation should ensure that the frequency of surprise inventory counts is sufficient to safeguard inventory from theft and that all counts are documented.

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## **Written Policies Have Improved, But Require Further Development**

Golf Operations management has developed written policies on several aspects of the pro shop operations. Management has also created appearance standards for both the storeroom and retail sales floor and employees appear to follow most established policies. Written procedures are still needed, however, for discounting merchandise and operating the point of sale inventory system. In addition, the written policies are disorganized and difficult to use.

### **Some Written Procedures Were Developed; Most Are Followed**

Golf Operations management has developed written procedures addressing merchandise pricing, returns, and trade-ins. Appearance standards have also been developed for the retail floor and storerooms. In our original audit, we had reported that the lack of these procedures contributed to inconsistencies in pro shop operations.

Golf Operations employees also appear to follow most of the new procedures. Pro shop staff interviewed were aware of the trade-in policy and correctly stated that trade-ins are not accepted. Most sales floors were well-maintained and three of the four storerooms were neat and orderly.

**Merchandise pricing policies are not always followed.** A random sampling of merchandise items sold in the pro shops found general compliance with the pricing policy. According to the policy, the sale price should provide a profit that is within an authorized range that varies, depending on the type of merchandise being sold.

We sampled ten items including golf accessories and clothing to test how well the pricing policy is followed. For 7 of the 10 items, the profit percentage derived from the established selling price fell within the authorized ranges established for these items. One item slightly exceeded the established profit percentage and two items were priced at an amount that would not allow Golf Operations to achieve the minimum profit established by its policy.

### **Additional Written Procedures Are Needed**

While Golf Operations staff has developed some of the procedures we originally recommended, additional written procedures are needed for discounts and operating the point of sale inventory system.

Management informed us that the accountant who initially implemented the new inventory control system left Golf Operations in February 2000 and that his replacement would have benefited from written instructions. Written policies and procedures help ensure consistent practices and minimize disruptions resulting from loss of key personnel. The director of Parks and Recreation should develop written policies and procedures on merchandise discounting and operating the merchandise inventory system.

### **Written Policies and Procedures Should Be Adequately Maintained**

The written policies for Golf Operations consist of policy documents and written memoranda prepared by golf management. These materials are not bound, and there are no page numbers or other means of determining whether the set of documents is complete. Several documents were undated, making it difficult to determine whether the policies described are current or have been superseded. In one instance, we found an undated policy and a dated memorandum detailing different fees for the same golf services. Including both documents increases the potential that staff could inadvertently continue operating under a superseded policy.

In their review of Golf Operations, Golf Industry Associates concluded that written policies for maintenance operations were relatively current, but procedures for non-maintenance operations were less well-defined, noting that memoranda dated as early as 1995 were included. They recommended operating policies be reviewed and formalized; we agree. The director of Parks and Recreation should ensure that written procedures for Golf Operations are reviewed and updated, organized in an easy-to-use formal document, and redistributed to employees. Once re-issued, a mechanism should be established to communicate procedural updates that clearly identifies superseded procedures.

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## **Inventory Turnover Has Improved But Merchandise Revenues Are Declining**

Inventory turnover has improved, approaching industry norms for sporting goods stores. The mix of merchandise sold in the pro shops has changed, with a smaller portion of the inventory invested in higher

priced items such as bags, shoes, clothing, and clubs. Despite these improvements, revenues from merchandise sales have been declining in recent years. During the original audit, inadequate records prevented us from determining the age of the merchandise sold in the pro shops. The new inventory system, however, should assist golf management in calculating this measure as well as inventory turnover and merchandise mix – measures which might help management determine the cause of the decline in revenue.

### **Pro Shop Inventory Turnover Has Improved, But Remains Low**

The pro shop inventory turnover rate has increased since 1996, although it remains below the minimum industry norm. Inventory turnover, expressed in days, indicates how long inventory remains on hand before it is sold and provides a basic determination of whether obsolete inventory is present or priced inappropriately. Low inventory turnover rates may suggest that the inventory is obsolete, not worth its stated value, priced too high, or of a style or type that does not appeal to customers.

Our original audit found low merchandise inventory turnover rates for the city's golf courses. On average, items remained in inventory for 406 days before they were sold, an inventory turnover ratio of .9 times per year. In 1999, the overall pro shop inventory turnover ratio had doubled to about 1.8 times per year, with inventory remaining on hand an average of only 197 days. (See Exhibit 2.)

Exhibit 2. Inventory Turnover Ratios, FY1999, with Industry Norms

Location	Inventory Turnover	
	Ratio (Times Per Year)	Days of Supply
Swope Memorial Park	2.19	167
Hodge Park	1.96	186
Minor Park	1.67	219
Blue River	1.25	292
<b>Overall – City Golf Courses</b>	<b>1.85</b>	<b>197</b>
Industry Norm – Sporting Goods Stores and Bicycle Shops		
Upper Quartile (High)	3.80	96
Middle Quartile (Medium)	2.70	135
Low Quartile (Low)	1.90	192

Sources: Golf Operations Division financial statements and inventory records for fiscal year 1999; Robert Morris Associates, *Annual Statement Studies 2000*, (Philadelphia, PA: Robert Morris Associates, 1999); and City Auditor's Office calculations.

Inventory items remain on hand the longest at Blue River, taking on average 292 days to be sold. Swope Memorial had the shortest time, with items remaining in inventory on average for 167 days before they are sold. Overall the city's inventory turnover ratio and days of supply is almost equal to the lowest industry norm. While this represents a significant improvement over conditions found in our original audit, it also indicates that additional improvements are possible.

### Merchandise Mix Has Improved

The mix of merchandise sold in the pro shops has improved. Our original report found that 57 percent of the pro shop inventory consisted of higher priced items such as golf bags, clothing, shoes, and golf clubs. We suggested the slow inventory turnover could be an indication customers simply no longer look to the pro shops to supply these types of items because they are available at large sporting goods stores at lower prices. This was also the reason we compared inventory turnover ratios to industry norms for sporting goods stores.

Since the original audit, Golf Operations staff has reduced the proportion of pro shop inventory that consists of higher priced items. Today, high priced items make up only 31 percent of the merchandise in inventory. (See Exhibit 3.)

Exhibit 3. Golf Retail Merchandise by Category, 1996 and 2000.

Category	Inventory As Of:	
	April 30, 1996	August 2, 2000
<b>Lower priced items</b>		
Accessories	11%	25%
Balls	21%	15%
Gloves	11%	29%
<b>Totals</b>	<b>43%</b>	<b>69%</b>
<b>Higher priced items</b>		
Bags	6%	5%
Shoes	14%	10%
Clothing	10%	12%
Clubs <sup>6</sup>	27%	4%
<b>Totals</b>	<b>57%</b>	<b>31%</b>

Sources: *Parks and Recreation Department Golf Course Retail Inventory Controls*, Office of the City Auditor, City of Kansas City, Missouri, December 1996; and golf inventory records as of August 2, 2000.

More than half of the current merchandise inventory consists of gloves and accessory items (tees, towels, spikes, bag tags, club covers, hats,

<sup>6</sup> This category includes putters, which are considered a separate category in Golf Operations' inventory system.



etc). While a quarter of the inventory in 1996 was invested in golf clubs, it is now less than five percent of the total value of the inventory.

### **Golf Merchandise Revenues Are Declining**

Revenues from pro shop sales have declined since the release of our original audit, while revenues from golf activities and food and beverage sales have increased. During the original audit, inadequate records prevented us from determining the age of the merchandise sold in the pro shops. The new inventory system should allow golf staff to routinely calculate this measure as well as inventory turnover and merchandise mix. These measures might help management determine a cause for the decline.

**Pro shop revenues have declined.** Between 1997 and 2000, total golf revenues increased from \$3 million to over \$4 million annually. During this same period, pro shop revenues declined, contributing a smaller portion of the total revenues obtained from operating the four golf courses. (See Exhibit 4.)

Exhibit 4. Golf Revenues by Source, Fiscal Years 1997-2000.

Source of Revenue	1997	1998	1999	2000
Golf Activities	\$2,393,733	\$3,043,297	\$3,059,037	\$3,411,609
Food/Beverage Sales	364,664	445,767	425,676	464,938
Pro Shop Sales	249,123	246,086	228,815	233,223
<b>Total</b>	<b>\$3,007,520</b>	<b>\$3,735,150</b>	<b>\$3,713,528</b>	<b>\$4,109,770</b>
% of Total Revenues				
from Pro Shop Sales	8.3%	6.6%	6.2%	5.7%

Sources: Operating statements for the Parks and Recreation's Golf and Tennis Activities, and City Auditor's Office calculations.

Between fiscal years 1994 and 1996, annual pro shop sales were greatest in 1995, when over \$295,000 in sales was recorded. Pro shop sales declined in the years since, and now contribute less than six percent of the total revenues obtained from the city's four golf courses.

### **Management Analysis Could Help Improve Pro Shop Revenues**

Golf management does not routinely calculate inventory turnover, although the information needed to do this is available from the new inventory system. During our original audit, we recommended strengthening the inventory system to provide better accountability, adding written procedures for determining the age of the inventory, and analyzing inventory turnover.

According to the director of golf, decisions on what merchandise to purchase are currently based on customer requests and perceptions from the pro shop managers of popular items. Despite the availability of information on inventory levels and merchandise sales from the new inventory system, inventory turnover rates are not calculated.

Calculating inventory turnover and merchandise mix should assist golf management in effectively monitoring the performance of the pro shop. These efforts could help identify the reason for the recent decline in revenues. Inventory turnover should be calculated for both individual categories of golf merchandise and all items combined, using the information provided by the inventory system. Golf management should also monitor the merchandise mix and the age of merchandise sold, to identify items that are lagging in sales, and determine whether other types of merchandise could sell more successfully. The director of Parks and Recreation should develop procedures for calculating inventory turnover and the age and mix of merchandise sold, and ensure that staff utilize these methods to monitor performance.

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## **Recommendations**

1. The director of Parks and Recreation should ensure concession inventory items are added to the point of Sale inventory system.
2. The director of Parks and Recreation should ensure that the golf accountant's responsibilities for receiving and entering golf merchandise in the inventory system are either segregated or monitored by the director of golf.
3. The director of Parks and Recreation should ensure that the frequency of surprise inventory counts is sufficient to safeguard inventory from theft and that all counts are documented.
4. The director of Parks and Recreation should develop written policies and procedures on discounting merchandise and operating the point of sale inventory system.
5. The director of Parks and Recreation should ensure that written procedures for golf operations are reviewed and updated; organized in an easy-to-use formal document; and redistributed to employees. Once re-issued, a mechanism should be established to communicate procedural updates that clearly identifies superseded procedures.

6. The director of Parks and Recreation should develop procedures for calculating inventory turnover and the age and mix of merchandise sold, and ensure that staff utilize these methods to monitor performance.

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## **Appendix A**

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### **Prior Audit Recommendations**



### Prior Audit Recommendations

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1. The director of golf should expand the division's written Policies and Procedures Manual to reflect basic functions such as valuation of merchandise, markup and markdown percentages, trade-in requirements, return policies, retail floor and storeroom appearance standards, age of the inventory, and turnover analysis.
  2. The director of golf should strengthen the pro-shop merchandise and concession inventory system to provide a better accountability of current inventory balances. In addition, the internal controls over golf and concession merchandise should also be strengthened to provide a reasonable assurance that city assets can be safeguarded against theft or pilferage.
  3. The director of golf should periodically perform surprise monthly physical counts of golf and concession inventory at each golf course, with the results reported in written form. Variances of more than five percent between the physical count and the monthly count by golf employees should be actively investigated with the results similarly documented.
  4. The director of golf should prepare a written plan for the golf courses' retail operation that investigates why inventory turnover is slow, and determines the product mix the shops should sell.
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## **Appendix B**

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### **Audit Report Tracking System (ARTS) Reports**






## AUDIT REPORT TRACKING SYSTEM

Page \_\_\_\_ of \_\_\_\_

1. Audit Title Golf Course Retail Inventory Controls	2. This Report Date 7 July, 1997
3. Department Parks & Recreation    Golf Services	4. Last Report Date
5. Department Head Terry R. Dopson, Director	6. Contract Person/Phone Steve Lampone 871-5615
7. Audit Release Date 4 November, 1996	8. ARTS Number



9. Status of All Audit Recommendations	
Status	Date
1. Implemented	April, 1997
2. Partially Implemented	March, 1997
3. Partially Implemented	July, 1997
4. Implemented	March, 1997

10. Recommendations Included in this Report

Recommendation #1: The director of golf should expand its written Policies and Procedures Manual to reflect on basic functions such as valuation of merchandise, markup and markdown percentages, trade-in requirements, return policies, retail floor and storeroom appearance standards, track the age of the inventory, and turnover analysis.

Description of Status: Implemented. A comprehensive review of Standard Operating Procedures has been completed. Significant revisions have updated several Golf Services procedures and new policy memos on food and beverage and golf merchandise for resale procedures have been written and implemented. Specific policy memos exist on how merchandise by type is priced above cost, trade-in procedures, return merchandise policy including annual card refunds, golf pro shop display plans, and inventory tracking.

Recommendation #2: The director of golf should strengthen the pro-shop merchandise and concession inventory system to provide a better accountability of current inventory balances. In addition, the internal controls over golf and concession merchandise should also be strengthened to provide a reasonable assurance that city assets can be safeguarded against theft or pilferage.

Description of Status: Partially Implemented. Golf Services Division has completed the acquisition of a computerized point of sale (POS) inventory control and sale system. This \$57,000 system has been installed at the Blue River Golf Academy test side and staff is being trained at this time. After the test bed work is complete, the other three courses will receive the hardware and software program and be incorporated into the total system.

This POS system enables Golf Services division key staff including our Accountant 1 to have day to day access to all inventory receiving, stocking, and daily sale data from each course on a daily basis for analysis. This system includes bar code inventory stock numbers, bar code scanning of sales for not only merchandise, but all daily pro shop transactions including green fees, annual card sales, golf car rentals, and gift certificate sales and redemption transactions. Daily analysis and control is being made with the Director, Deputy Director, Accounting and course General Managers on inventory status, sales, and restocking requirements.

## AUDIT REPORT TRACKING SYSTEM

Page \_\_\_\_ of \_\_\_\_

1. Audit Title	2. This Report Date
Golf Course Retail Inventory Controls	7 July, 1997
10. Recommendations Included in this Report	
<p>Recommendation #3: The director of golf should periodically perform surprise monthly physical counts of golf and concession inventory at each golf course, with the results reported in written form. Variances of more than five percent between the physical count and the monthly count by golf employees should be actively investigated with the results similarly documented.</p> <p>Description of Status: Partially Implemented. Physical inventory of goods is done monthly by each pro shop staff. Justification of discrepancies is done by the Accountant 1 each month and corrections made.</p> <p>When the POS system is fully activated, "surprise" spot checks of inventory will be done from the computer main frame and at the course. Variances will be recorded and any out of tolerance +/- 5% discrepancy will be noted and action taken to correct this discrepancy.</p> <p>Recommendation #4: The director of golf should prepare a written plan for the golf courses' retail operation that investigates why inventory turnover is slow, and determines the product mix the shops should sell.</p> <p>Description of Status: Implemented. A Business Plan was written and published on 18 March, 1997. It outlines goals and objectives of the Golf Services Division and specifically addresses ways to strengthen and improve the retail golf merchandise and food and beverage operations. Golf merchandise inventory philosophy has been modified to reflect an emphasis on golf accessories which are sold at a higher margin of profit (balls, gloves, headwear, bags, putters, etc.) rather than high dollar items such as sets of clubs and clothing. Our inventory currently reflects a more suitable and desirable mix of golf products for quicker turn ratios, lower total dollar inventory on hand and increased gross sales.</p>	

## AUDIT REPORT TRACKING SYSTEM

Page \_\_\_\_ of \_\_\_\_

1. Audit Title	2. This Report Date		
Golf Course Retail Inventory Controls	January, 1998		
3. Department	4. Last Report Date		
Parks & Recreation    Golf Services	July, 1997		
5. Department Head	6. Contract Person/Phone		
Terry R. Dopson, Director	Steve Lampone      871-5615		
7. Audit Release Date	8. ARTS Number		
4 November, 1996	956-038-2		
9. Status of All Audit Recommendations			
	Status	Date	Status      Date
1. Implemented		April, 1997	
2. Implemented		December, 1997	
3. Implemented		December, 1997	
4. Implemented		March, 1997	
10. Recommendations Included in this Report			
<p><u>Recommendation #2:</u> The Director of Golf should strengthen the pro-shop merchandise and concession inventory system to provide a better accountability of current inventory balances. In addition, the internal controls over golf and concession merchandise should also be strengthened to provide a reasonable assurance that city assets can be safeguarded against theft or pilferage.</p> <p>Description of Status: Implemented. Golf Services Division has completed the installation of four computerized Point of Sale (POS) registers at each pro shop and at the Golf Operation storeroom. These POS registers are all operational and running "live" as of December 23, 1997. With this system, Golf Management is able to track inventory levels of merchandise, annual cards and gift certificates. The registers provide day to day access to all inventory receiving, stocking, and daily sales data from each course. The data is transmitted to the Main System located in the Golf Operation storeroom each night. With this system, the pro shop merchandise is bar coded and given a number. When a sale is made, the merchandise number is either scanned or entered into the register. Internal controls within the POS system will not allow a staff member to sell merchandise below cost. Merchandise prices are adjusted as needed by the Director of Golf.</p> <p>In addition to the above, the Concession Manager for Golf Operations is actively involved in taking concession inventories at two golf courses each month. After conducting the inventory, a detailed analysis is prepared and discussed with the General Manager. Any unsubstantiated variances are brought to the attention of the Director of Golf.</p>			

AUDIT REPORT TRACKING SYSTEM

Page \_\_\_\_ of \_\_\_\_

1. Audit Title  Golf Course Retail Inventory Controls	2. This Report Date  January, 1998
10. Recommendations Included in this Report	
<p>Recommendation #3: The Director of Golf should periodically perform surprise monthly physical counts of golf and concession inventory at each golf course, with the results reports in written form. Variances of more than five percent between the physical count and the monthly count by golf employees should be actively investigated with the results similarly documented.</p> <p>Description of Status: Implemented. The POS system allows Golf Management to track the physical inventories at each pro shop. Any discrepancies discovered during these spot checks are investigated by the General Manager and reported to the Director of Golf. Discrepancies +/- 5% are fully noted through written documentation. Inventory shortages are tracked to determine the seriousness of the problem.</p>	

## **Appendix C**

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### **Director of Parks and Recreation's Response**

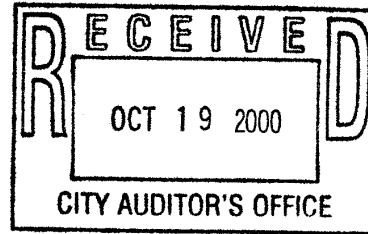








## Inter-Departmental Communication



DATE: October 17, 2000

TO: Mark Funkhouser, City Auditor

FROM: Terry R. Dopson, Director, Parks and Recreation Department

SUBJECT: Draft Follow-up Report – Golf Course Retail Inventory Controls

We have reviewed the draft follow-up report of Golf Course Retail Inventory Controls, dated September 27, 2000. We appreciate the opportunity to comment on the recommendations of this report.

**Recommendation #1:** The director of Parks and Recreation should ensure concession inventory items are added to the Point of Sale inventory system.

**Answer:** Disagree

**Narrative:** Golf Services, in theory, would like to bring the concession component of their operation “on-line”, however what the draft audit is suggesting presents many challenges. First, the concession manager currently calculates monthly food costs and compares it to targeted goals. An over/short dollar amount is calculated each month in order to track “losses”, as minimal as they may be. The concession manager concentrates on high volume items, (i.e. coffee, hot dogs, or beer), to see if the amount of inventory consumed is equal to the amount sold. Although these are manual calculations, Golf Services is keeping a close tab on their concession operations. Secondly, additional staffing at the Blue River central location and at the clubhouses would be required to carry out this recommendation. Every item, (i.e. tomato, hamburger, cups, etc.), would have to be recorded into the system upon delivery and at the close of each day. Thirdly, Golf Services would need to purchase a concession software package at an estimated cost of \$25,000-\$35,000.

The Parks Department is currently in the process of advertising for outside management of the clubhouse operations (pro shop and restaurant). Proposals are due to the department for Hodge Park golf course on October 23, 2000. Swope Memorial and Minor Park clubhouse operations are to be advertised October 22, 2000. Therefore, the assuming we are able to negotiate agreements for the two courses, the only site left to address would be Blue River Golf Academy. We do not believe that a cost/benefit analysis would justify the aforementioned expenditure.

**Recommendation #2:** The director of Parks and Recreation should ensure that the golf accountant's responsibilities for receiving and entering golf merchandise in the inventory system are either segregated or monitored by the director of golf.

**Answer:** Agree

**Narrative:** Golf Services would like to continue to have the accountant receive and enter the merchandise into the inventory system. However, a new receiving report will be created and compared to the actual invoice to verify that all items invoiced have been added to the inventory system. The director of golf will verify that the receiving report and the invoice agree.

**Recommendation #3:** The director of Parks and Recreation should ensure that the frequency of surprise inventory counts is sufficient to safeguard inventory from theft and that all counts are documented.

**Answer:** Agree

**Narrative:** Golf Services has increased the number of surprise inventory counts and will continue to perform monthly counts.

**Recommendation #4:** The director of Parks and Recreation should develop written policies and procedures on discounting merchandise and operating the merchandise inventory system.

**Answer:** Agree

**Narrative:** The director of golf will formalize operating procedures for discounting merchandise and the point of sale system by December 31, 2000.

**Recommendation #5:** The director of Parks and Recreation should ensure the written procedures for golf operations are reviewed and updated; organized in an easy-to-use formal document; and redistributed to employees. Once re-issued, a mechanism should be established to communicate procedural updates that clearly identifies superseded procedures.

**Answer:** Agree

**Narrative:** The director of golf will be responsible for updating the current standard operating procedures manual. A new procedure will be put in place to ensure golf employees are able to find pertinent information quickly and easily by March 1, 2001.

**Recommendation #6:** The director of Parks and Recreation should develop procedures for calculating inventory turnover and the age and mix of merchandise sold, and ensure that staff utilize these methods to monitor performance.

**Answer:** Agree

**Narrative:** In order for Golf Services to calculate inventory turnover rates, a copy of the source document used by the city auditors to determine the rates needs to be provided to Golf Services to ensure consistency in calculations. Currently Golf Services determines the age of the merchandise manually by visiting the shops. The inventory levels are monitored to ensure that proper inventory levels are maintained during summer months and reduced during the "off" season. Slower moving items from one clubhouse are often moved to another site in order to achieve maximum sales. The director of golf is presently reviewing items that are sold on a monthly basis.

